HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Peterborough CMA

CANADA MORTGAGE AND HOUSING CORPORATION

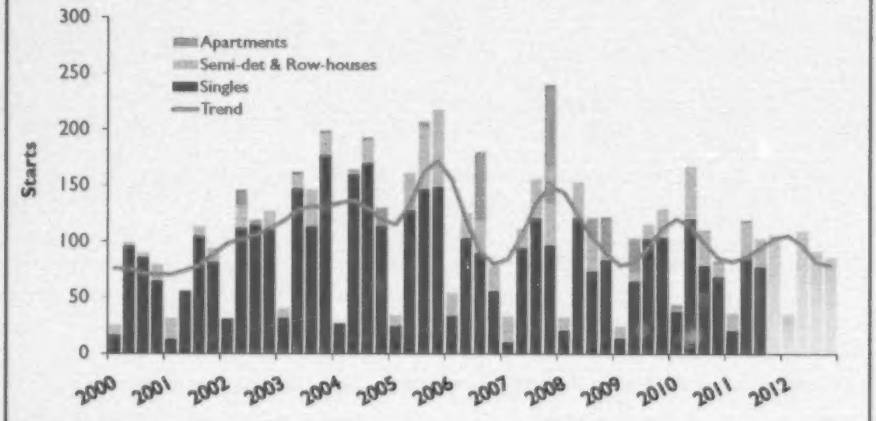
Date Released: Fall 2011

Market at a Glance

- Existing home sales will fall to 2,360 sales in 2011.
- Peterborough homes prices will increase by two per cent in 2011 and remain flat in 2012.
- New home construction will keep its downward trend for the next two years. Demand for smaller singles and townhouses will hold up.
- Employment will continue to be a challenge.

Figure 1

New Home Starts Will Slow in Both 2011 and 2012



Source: CHMC forecasts

[1] The forecasts included in this document are based on information available as of October 5 2011.

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Figure 2

Resale Homes Market

Sales and prices holding steady

The resale market in Peterborough is expected to remain relatively flat for the rest of this year and next year. Older migrants who will move to Peterborough for retirement will be a source of demand, offsetting to some degree the diminishing demand resulting from high unemployment. However, overall sales this year will be down by seven per cent from last year to 2,360 transactions, marking the weakest performance in a decade.

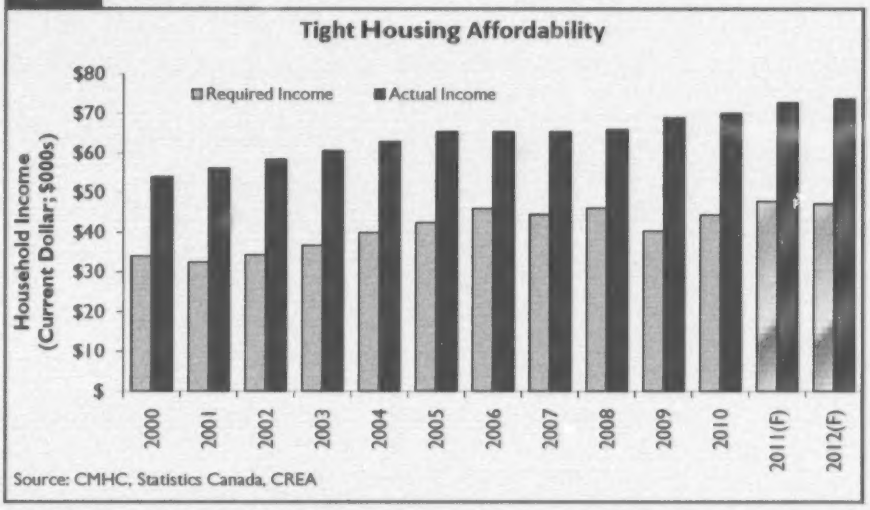
A number of factors will contribute to fewer sales of existing homes, but the key factor is the uncertainty of employment in Peterborough, which will cause potential buyers to postpone their home buying decisions. Also some first time buyer purchases, originally planned for the fourth quarter of 2011 or the year 2012, took place earlier as people bought before the anticipated increases in mortgage rates or any further tightening of mortgage insurance requirements. In early 2012, lower mortgage rates will stimulate sales somewhat but the impact will be relatively short lived. Sales will ease in the second half.

On the supply side, many sellers listed their homes in 2010 in order to take advantage of price appreciation and acquire a different home at a lower mortgage rate. With the pool of potential repeat buyers also down, repeat buyer activity will decelerate along with new listings in the rest of the year and next year.

The decrease in sales will exceed the decline in new listings. This means that the sales-to-new listings ratio, an indicator of future housing price growth and a measure of housing conditions, will decrease moderately but still indicate the market is balanced. A balanced resale market implies little price growth. The average price will move up modestly at a rate below the inflation rate in 2011 and will flatten through 2012.

Baby boomers will be as a major source in maintaining the level of sales. Peterborough is considered an attractive retirement communities. It has a high quality of life that retired migrants from large cities can afford. The average house price at $ 255,000 in 2011 is significantly lower than it is in other adjacent centers. Baby boomers will be able to buy a house in Peterborough and enjoy their retirement years.

Figure 3



Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage carrying costs are calculated based on 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization for a mortgage loan.

New Homes Market

Fewer Starts in Both 2011 and 2012

New home starts in the Peterborough Census Metropolitan Area (CMA) will decrease by three per cent in 2011 and five per cent in 2012. Apartment starts in the fourth quarter will limit the decrease in total housing starts this year. Starts of this type of housing in Peterborough can vary considerably from year to year. In 2012, low mortgage rates will provide some stimulus, but the impact will begin to wane by the end of the year. Also, more choice in the resale market will mean fewer consumers will visiting new home sales sites. The economic slowdown has reduced demand for new construction. Given the uncertainty regarding employment, many potential buyers will be reluctant to make major commitments, even with low mortgage rates for the remainder of 2011 and during most of 2012. Therefore, the stimulus from low borrowing costs will have limited impact because other economic factors will hinder demand for new homes.

Single-detached houses will continue to dominate residential construction in Peterborough CMA. This type of housing remains one of the reasons why many people will keep moving to Peterborough from areas where population density is high, availability of land is a challenge and affordability are issues.

Baby boomers from the GTA and Durham region will be customers for single-detached homes. The phenomena of the flow of the retiring baby boomers will continue for the next 25 years. At the same time, echo boomers, the children of baby boomers, are reaching the age when they will be buying their first homes. Although some will be moving from Peterborough, enough will be staying to increase first-time home buying demand in the next few years. They will tend to choose the more affordable smaller single-detached homes and townhouses. Increased construction of these higher-density home types is in line with provincial growth guidelines.

After a sharp decline last year by ten per cent, the average price of new single-detached homes will increase over seven per cent in 2011. However, the average price declined again in the second half while the median increased, an indication that more of the new homes being built are in the lower price ranges. This is expected to continue into 2012, with the average price declining while the median holds steady.

Local Economy

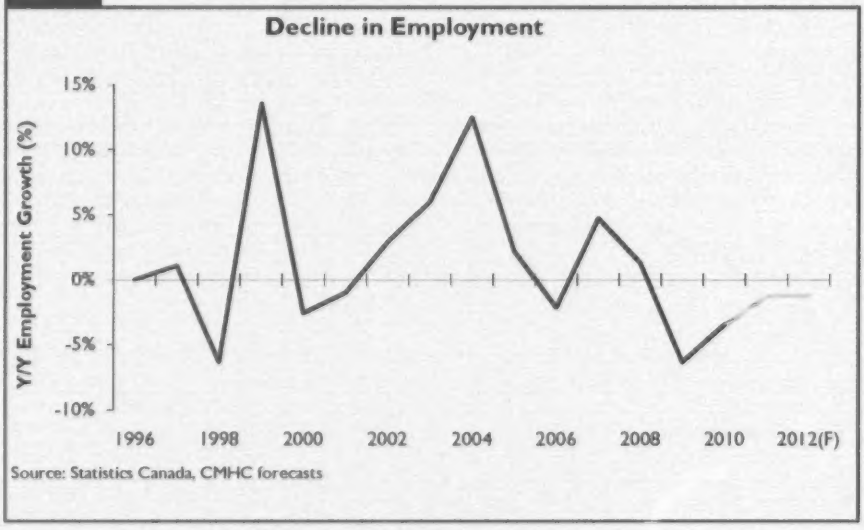
Unemployment rate historically high

Employment has been a challenge for Peterborough CMA for some time now and is expected to decline by 1.2 per cent in both 2011 and 2012.

The labour force is declining along with employment since the weak economy is encouraging employers not to replace workers when they retire. Another reason the labour force is decreasing is that unemployed workers become discouraged and stop looking for work. As result the labour force will decline by close to one per cent in 2011. Peterborough employment will decrease faster than the decline in the labour force; resulting in the unemployment rate remaining high in 2011 before adjusting down slightly in 2012.

The economic slowdown since 2008 has led many manufacturing companies in Peterborough to restructure their activities in order to improve their competitiveness. In some cases, this has meant reducing the number of employees or encouraging them to take an early retirement and not replacing their jobs. In 2011, rehiring in the automotive sector in Durham region will offset the manufacturing job losses occurring in Peterborough CMA, since many Peterborough residents work in these plants.

Figure 4



Source: Statistics Canada, CMHC forecasts

Peterborough's population is aging. This is the result of a declining birth rate along with some households with children leaving the community to find work in other regions. However, there's a shift beginning from a goods-based economy to a knowledge economy which requires fewer workers but requires more skills. The airport project will facilitate this transition by enabling knowledge workers to live in Peterborough and travel easily for business. The creation of those knowledge-based jobs in the next several years will support earnings growth.

The population will continue to grow, supported by older migrants from other regions, mainly the GTA and Durham region. These older migrants will require more medical and social services in the future. Indeed, the health sector and social services will grow while goods-producing sectors will shrink after rebounding in 2011. This long-term change will keep the unemployment rate high for several years until the mix of workers will adjust to Peterborough's new face.

Mortgage Rate Outlook

Recent announcements by the Bank of Canada have indicated that the Bank will be leaving the target overnight interest rate unchanged at 1.0 per cent for some time to come. The Bank has been noting that in light of slowing global economic momentum and heightened financial uncertainty, the need to withdraw monetary policy stimulus has diminished. The last increase in the overnight interest rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat until late 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.4 to 3.8 per cent range, while the five-year posted mortgage rate is forecast to be within 5.2 to 5.7 per cent.

Forecast Summary Peterborough CMA Fall 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	2,506	2,458	2,537	2,360	-7.0	2,320	-1.7
MLS® New Listings	5,264	4,578	5,032	4,850	-3.6	4,980	2.7
MLS® Average Price ($)	230,656	236,637	249,763	255,000	2.1	256,800	0.7
New Home Market							
Starts:							
Single-Detached	300	286	306	268	-12.4	260	-3.0
Multiples	128	85	98	122	24.5	110	-9.8
Semi-Detached	0	0	16	4	-75.0	10	150.0
Row/Townhouse	82	55	78	88	12.8	70	-20.5
Apartments	46	30	4	30	**	30	0.0
Starts - Total	428	371	404	390	-3.5	370	-5.1
Average Price ($):							
Single-Detached	345,328	348,765	313,278	336,000	7.3	325,000	-3.3
New Housing Price Index (% chg. Ontario)	3.5	0.1	2.4	n/a	-	n/a	-
Rental Market							
October Vacancy Rate (%)	2.4	6.0	4.1	2.8	-	2.5	-
Two-bedroom Average Rent (October) ($)	850	875	890	895	-	900	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.60	-	3.56	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.42	-	5.43	-
Annual Employment Level	63,200	59,200	57,200	56,450	-1.3	55,800	-1.2
Employment Growth (%)	1.3	-6.3	-3.4	-	-	-	-
Unemployment rate (%)	6.1	7.5	9.7	9.8	-	9.7	-
Net Migration	486	309	326	400	22.7	490	22.5

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = apartments 3+

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